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# **Agriculture as an asset class: Financialisation of the South African farming sector**

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# Summary

- Contextualisation
- Investment funds in South African agriculture
- Producing the South African agriculture asset class
- Conclusion: What financialisation is it the name?

# Context

- The multiple food-energy-climate-finance crisis (Margulis, 2013)
- Increasing competition around natural resources control
- The (financial) rising of Africa (Vallée, 2011)





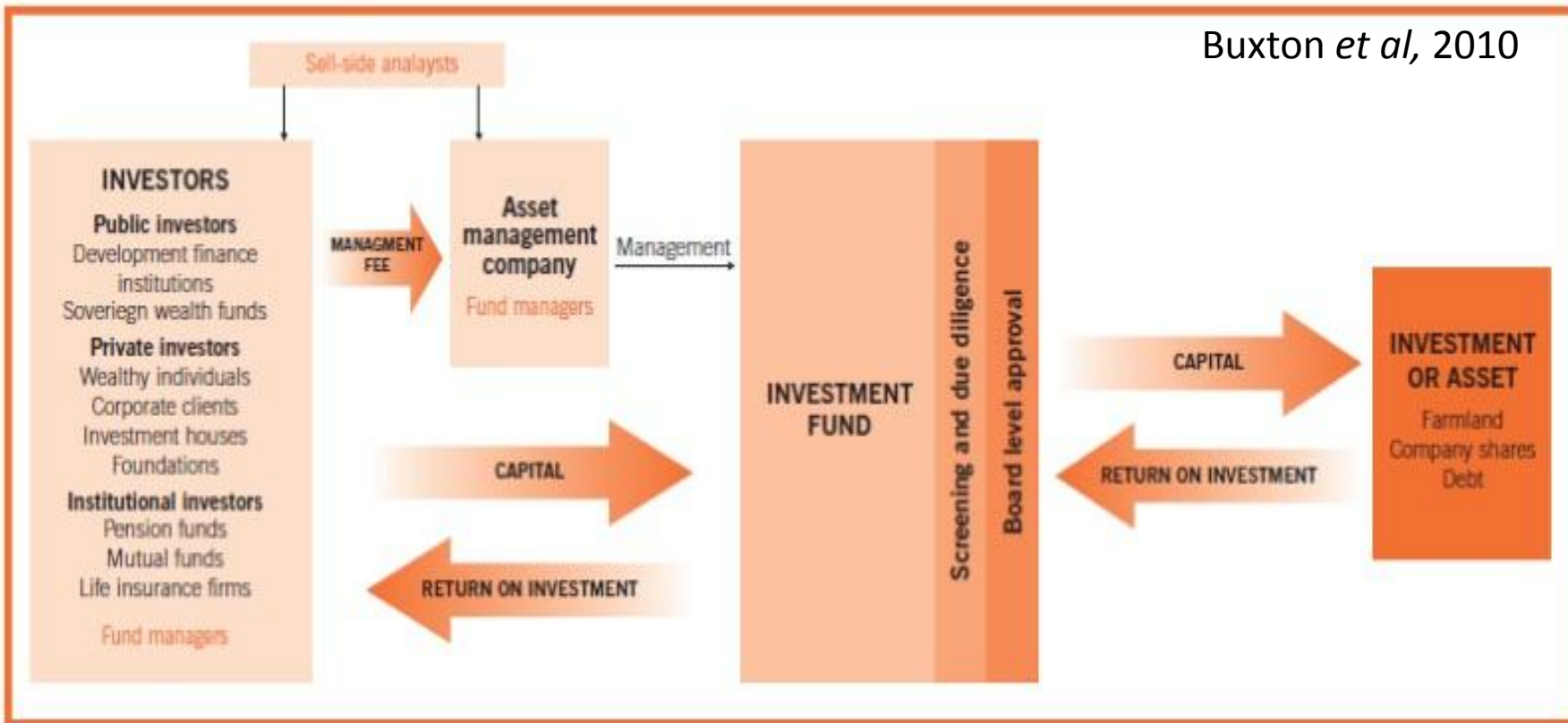
# Agriculture as an opportunity for financial actors

- Increasing interest from financial markets for agricultural investment:
  - Macroeconomic fundamentals (i.e. rising food prices, increasing global population)
  - Specific historical returns on land investment (i.e. US, Argentina)
  - Farmland as an equity: current income and capital appreciation
  - Diversification: uncorrelated returns with the bonds market
  - Strong hedge against inflation
- Three investments' options:
  - Commodity future contracts or commodity index funds
  - Public companies' equities related to agriculture
  - Farmland
- South African agriculture as a « frontier » market



# Investment funds in South African agriculture

Buxton *et al*, 2010



- Plurality of investors
- Delegation of management to a fund manager
- Diversity of funds' structures and managements
- An investment fund as a negotiation entity

# South African fund managers as financial intermediaries

- Market intermediaries' roles (Bessy & Chauvin, 2013):
  - Mediating the supply and demand
  - Translating capital and ressources
- An asset as a value recognized by financial markets:
  - Financial beliefs (i.e. outperformed the average profit)
  - Financial devices (i.e. calculation devices)
- How such intermediaries “frame” the South African agriculture to produce a new asset class?
  - 3 steps toward a profitable, predictable and liquid asset

# 1. Mitigate the risks

- « Unlock » the financial value through risk mitigation:
  - Natural risks (i.e. flood, drought)
    - Geographical diversification
  - Market risks (i.e. prices volatility)
    - South African Futures Exchange
  - Human resource risks (i.e. decentralization)
    - Contracting model and advanced technologies
  - Illiquidity risks (i.e. immobility, taxation)
    - Bilateral double taxation agreements
- DFI's multiform support: financial participation, technical assistance facilities, institutional support

## 2. The production of a standardized information flow

- The corporate finance instruments (i.e. Discounted Cash Flow model)
  - Calculation device
  - Implementation in the South African agriculture
- A standardized benchmarks (a common metric) for financial markets:
  - Decision making support
  - To compare and evaluate the assets' profitability and complementarity



### 3. The neutralization of social « interferences »

- **Occupiers:** “A person residing on land which belongs to another person, and who has, or on 4 February 1997 or thereafter, had consent or another right in law to do so”, Extension of Security of Tenure Act, 1997
- The « depolitization » as a attempt to unlock the financial value
- The « cross-border regulation » attempts
- Limits and constraints of the translation process

# Financialisation as a mediation process

- Translation: from the « bush » to the financial language
- « Bottom-up financialisation »: daily interaction process
- Fund manager as « brokers in financialisation »: set up the instruments and cognitive framework of this “emergent” asset class



## Financialisation as a channeling power

- A new financial channel in the South African agriculture:
  - Corporate farming
  - Contracting model
- Financial representations and narratives:
  - Public vs. Public
  - Categorisation (e.g. «frontier » market)

# Financialisation as a public policy?

- Public policies and instruments for the production of a (South) African agriculture asset (i.e. Futures commodity market, double taxation agreement, MIGA, etc.)
- Circulation of employees between public institutions (national and international) and South African agriculture fund managers' industry
- Public capital through DFI's and public pension fund involvement



# Thank you

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